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Unmanned Stations Next? A Two Part Report
Trends: 'Netbacks' May Keep Oil Prices Low
How a Farm Belt Jobber Scores with Sidelines

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From East Coast Powerhouse To National Marketer?

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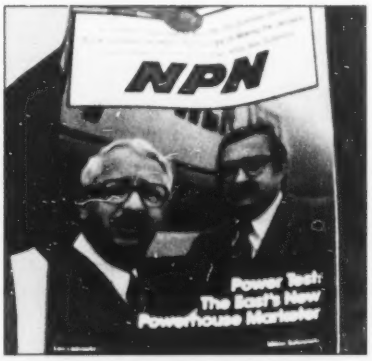
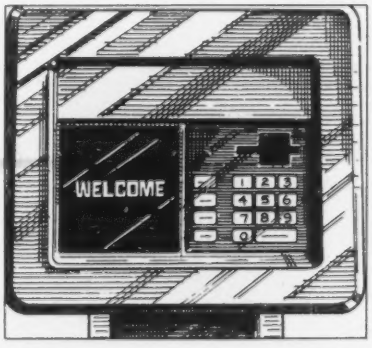


What have Powertest's Leo Liebowitz and Mike Safenowitz been up to since we last saw them on the cover of *NPN* in February 1979? Here's a close-up look. *Photo by J. Richard Shaner.* **Page 44**

In the first of our two reports on automated fueling, we look at the question of why hopes for a national card-activated fleet fueling network may never come to pass. **Page 52**



What do the proposed changes in the fire codes portend for the prospects of unattended "ghost stations"? Will service station dealers go along with the idea? Our second report presents an in-depth look at the issues and options. **Page 60**

• TRENDS

Will Prices Stay Down Despite OPEC's Accord?

If the Organization of Petroleum Exporting Countries sticks to its announced crude oil production quotas, scheduled to be in effect in September and October, crude prices could firm, but then again they might not. Some dark clouds hang over the OPEC resolve:

- The quotas could be inadequate to control worldwide surpluses of crude and products built up last summer in a frenzy of crude oil price-cutting.
- Even if OPEC members didn't cheat on quotas, if they continued to offer netback prices, product markets all over the world could remain depressed.

Above all, netback pricing is the ball to watch.

The market-share war Saudi Arabia launched in 1985, and which others followed, was particularly destructive of world crude prices because it was based on netback deals, which peg the crude price to product prices in the marketplace (*NPN*—June '86, p34). With oil producers assuming the risk of falling prices, refiners were encouraged to overimport and overproduce.

What happened in the United States last summer happened all over the world. Refiners gorged on cheap netback crude, and they stuffed considerably more through their refineries than the markets could absorb. The more products they refined, the lower product prices fell, and, therefore, the lower their crude oil netback buying prices became.

U.S. crude imports zoomed last summer, in the range of 50% higher than they were a year earlier. Refiners stoked up their plants to an average of about 86% of capacity, compared with about 79% a year earlier.

A glut was building, but refiners got a temporary reprieve in August when OPEC announced it would introduce production quotas in September and October. This news alone drove crude and product prices up, and more importantly for refiners, signaled wholesale marketers with nearly empty storage tanks to stock up. This secondary storage system can put a huge drain on the primary storage system under these conditions.

There were runs on terminals, temporary outages and product allocations. The overhanging glut that remained was demonstrated, however, by the spread of retroactive prices, by which some refiners met competition retroactively. This is very aggressive price-cutting, in a league with netback prices on crude.

Oversupply hung over the markets even as OPEC tried to put its price-fixing act back together. The excessive imports and refinery runs had been caused mainly by netback pricing, which OPEC members did not abandon when they adopted production controls. They eliminated some discounts, yes, but kept netback deals in place, perhaps a warning to others that the market-share battle could be started again with the pull of a trigger.

The real test is still to come this winter, the peak demand season for petroleum. This is when producers historically have maneuvered to improve sales and market share.

Saudi Arabia was so successful last year gobbling up most of the available demand, other producers are not easily going to forget the lesson. If they let discounting and quota-cheating slip by without reprisal, they might have to wait another year for similar opportunities to come again. This is a hair trigger that several big producers, particularly Saudi Arabia and Kuwait, have warned they'll pull.

Meanwhile, petroleum demand in the Unites States has looked stronger than it has for years, substantially in response to lower prices. OPEC was counting on demand gains in the U.S. to help make its quotas work.

The American Petroleum Institute estimated the real growth rate was 4-5% this summer.

But distillate fuel oil sales respond mostly to winter temperatures, not to prices. If the balance of supply and demand is at all close, an unseasonal winter could be the controlling factor, not OPEC.

Winter temperatures could turn out to be the crucial indicator in the short term, but in the long term it's the existence of netback pricing that will call the tunes. Until that goes, if it does, product markets are likely to remain soft, however firm crude prices might become.

—Mark Emond

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

JULY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .895	$ .822	$ .890	$1.045
Regions:				
Northeast	.905	.831	.844	1.034
North Central	.870	.817	.875	1.034
South	.870	.795	.865	1.024
West	.943	.855	.940	1.110

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	9/5/86	9/6/85
Gasoline (total)	222,351	225,683
Gasoline (Unleaded)*	116,892	110,845
Jet Kerosine	42,494	35,916
Distillates	135,606	117,699
Residual	40,099	39,336

**Included in gasoline total.*
Source: American Petroleum Institute.

Leaded 'Gas' Demand Dropping Faster Than Most Anticipated—EIA Forecast

The federal government's second-half forecast indicates some improvements in product demand and retail prices can be anticipated in the balance of 1986 and all of 1987—but not enough, really, to be considered to have wave-making potentials.

The new projection confirmed the roller-coaster aspects of the May forecasts which shakily tried to evaluate the growing disarray in product and crude oil marketplaces [*NPN*—July '86, p25].

Gasoline demand had its best summer season since 1978, but for the year as a whole, consumption is not expected to be much more than 2% over 1985. Distillates fared a bit better—up 3% for 1986 and looking at the possibility of another 3.4% rise in 1987. Resid, which has been declining in recent years, also is putting on a strong face—almost 12% for the year. But 1987 appears to be on the downside again, perhaps reusing the slope of recent years.

Of substantial significance is the continuing erosion in consumer demand for leaded gasolines vis à vis the unleaded products. In 1985, unleaded grades were pegged at 65% of product demand. In 1986, unleaded grades are expected to rise to 71% and by the end of next year, to 77%.

It would appear that demand for leaded gasolines is declining a bit faster than most industry sources had anticipated. This means that the older cars—the pre-1975s which required leaded gasoline—are skidding rapidly into oblivion, replaced by the newer models—domestic and foreign—which have higher miles per gal. ratings and smaller appetites for gasoline.

The closing of the gap between the unleaded and leaded grades, as well as the current pressure on prices—which have generally reduced the spread between the two products to as little as 1¢ to 2¢ gal. at the pumps, have all but eliminated the economic reasons for fuel switching, as practiced by some motorists.

Continuation of the swift transition from the leaded to the unleaded world also could mean that demand for the old-fashioned gasoline could be well below the 10% mark by 1990. At that level of interest, leaded regular may become as tough to get at most service stations over the next several years as premium leaded in recent years. Union Oil of California gave up the ghost on leaded premium just this past summer, and it was regarded as the last of the bigger refiner-suppliers to be offering this to West Coast motorists and elsewhere.

The mid-summer forecast, issued by the Energy Information Administration in mid-August, noted that retail gasoline prices are expected to dip 21% below the 1985 level. This is the average for all grades. Some grade prices dropped into the 60¢ gal. range earlier this year, but began to move upwards in August on the basis of market speculation over OPEC's announced intent to cut production to stabilize crude costs.

The short-term energy forecast suggested that gasoline prices may get as high as $1.03 gal. in the second half of 1987, but will average only 99¢ gal. for the entire year. Again, this is the average for all grades and includes federal and state taxes.

The price projections for distillate fuel oil are mildly optimistic. The spread between wholesale and retail averaged 36¢ gal. in the first quarter of 1986 and 31¢ gal. in the second quarter. The forecasts for the third and fourth quarters of this year are 24¢ gal. The chart shows that the spreads averaged 28¢ gal. in 1985, and are expected to average 29¢ gal. in 1986 and 28¢ gal. in 1987.

The retail prices for the home heating oil do not include taxes, however, as do those of gasoline and diesel fuel in the price chart.

EIA said its projections were based on the assumption that world prices for crude oil would average about $13 bbl. in the third quarter and $18 bbl. in the fourth quarter. The $13 bbl. projection seemed realistic in mid-August, on the basis of the OPEC production agreements, but whether the market will continue to firm up in the fourth quarter is highly speculative. OPEC has a poor track record in matching its public statements with coordinated membership actions, so there is question and concern whether Iraq, Iran, Algeria and some of the others will comply with the restrictions or merely pay lip service to them. NPN

Second Half Outlook: Stability Is the Keyword

	1st Qtr 1986	2nd Qtr 1986	3rd Qtr 1986	3rd Qtr 1985	4th Qtr 1986	4th Qtr 1985	1st Qtr 1987	2nd Qtr 1987	3rd Qtr 1987	4th Qtr 1987	Full Year 1985	Full Year 1986	Full Year 1987	% Chng 86/85	% Chng 87/86
Supply/Demand (million b/d)[a]															
Motor Gasoline (Total)	6.64	7.05	7.15	6.96	7.00	6.82	6.62	7.14	7.11	6.95	6.83	6.96	6.96	1.9	—
Leaded	2.15	2.27	1.97	2.41	1.80	2.31	1.62	1.66	1.56	1.45	2.43	2.05	1.57	(15.6)	(23.4)
Unleaded	4.49	4.78	5.18	4.55	5.20	4.51	5.00	5.48	5.54	5.50	4.41	4.91	5.38	11.3	9.6
Distillates	3.28	2.72	2.67	2.55	3.07	2.97	3.30	2.89	2.78	3.17	2.87	2.93	3.03	2.1	3.4
Residual	1.42	1.28	1.26	1.09	1.40	1.27	1.37	1.25	1.09	1.32	1.20	1.34	1.25	11.7	(6.7)
Other Products	4.71	4.83	5.20	4.94	5.12	4.96	4.90	4.79	5.20	5.12	4.83	4.96	5.00	2.7	(0.8)
Total U.S.	16.06	15.88	16.28	15.54	16.59	16.02	16.19	16.07	16.18	16.55	15.73	16.20	16.25	3.0	0.3
Prices ($ per gal.)[b]															
Motor Gasoline[c]	1.10	.93	.88	1.22	.89	1.20	.91	.97	1.03	1.03	1.20	.95	.99	(20.8)	4.2
No. 2 Diesel Oil (Retail)	1.04	.86	.81	1.13	.84	1.20	.92	.93	.97	1.00	1.15	.89	.95	(22.6)	6.7
No. 2 Heating Oil															
Wholesale	.61	.43	.41	.73	.44	.83	.49	.49	.52	.56	.77	.47	.51	(39.0)	8.5
Retail	.97	.74	.65	.98	.68	1.07	.77	.75	.78	.84	1.05	.76	.79	(27.6)	3.9
No. 6 Residual[d]	.47	.32	.32	.57	.34	.58	.37	.37	.41	.44	.61	.36	.39	(41.0)	8.3

(a) Supply/Demand is basically product supplied and includes net imports.
(b) Gasoline and No. 2 diesel include federal and state taxes; No. 2 heating oil and resid do not.
(c) Average for all grades.
(d) Average for all sulfurs; retail price.
Source: Energy Information Administration, Short-term Energy Outlook, August 1986.

Unattended could be a boon to small rural jobbers.

use of safety devices such as automatic fire suppression equipment, heat detection and alarm systems. Such equipment would cost retailers an estimated $7,000 to $10,000 per location.

Is unattended really the wave of the future? Bob Renkes, PEI administrative director, believes the amended codes will provide an economic boost for smaller jobbers.

"Unattended stations will help those jobbers contain labor costs," Renkes says. "Customer convenience will improve. And, many jobbers will be able to have their own credit card programs." NPN

How Safe Is Self-service?

Self-serve gasoline dispensing is not as safe from fire and other customer-triggered accidents as many in the industry believe it to be, a dealer association exec charges.

Brian Ettesvold, executive director of the Minnesota Service Station Assn., has compiled survey data which he says demonstrates that self-service gasoline operations are more dangerous than full-service.

"It's obvious from our data that unattended self-serve outlets, open to the public, would magnify the safety problems revealed in our survey," Ettesvold says. "When an accident occurs, the presence of an alert attendant is frequently the difference between a minor incident and a possible disaster."

Ettesvold also claims that the MSSA survey shows that the low notification rate of station accidents to local fire departments (less than 10% of actual occurrences among the 205 stations responding) indicates that accurate data on the number of accidents in stations is simply not available. "We've checked every source imaginable—fire departments, insurance companies, government agencies, etc.—and got nothing," he says. "The vast majority of occurrences just go unreported."

Commenting on the survey results, Ettesvold says, "If no attendant is on duty, we could be exposing customers to a large number of life threatening situations, as well as pollution of sewers and water supplies. Extra precautions must be studied if we are going to consider unattended gasoline outlets open to the public."

MSSA mailed out a total of 490 questionnaires to all types of gasoline outlets in the state and received 205 usable responses, a response rate of about 42%. Respondents by type of outlet were:

Full-service only	28
Self-service only	105
Split Island Only (Full- and self-service)	72

Driveoffs With Hose in Tank

Type of Outlet	Occurrence Rate	Projected Statewide Hose Pulloffs Per Year
Full-service only	Once every 3 years	185
Self-service only	Once every 1¼ years	1,628
Split island (f-s)	Once every 3 years	431
Split island (s-s)	3.1 times per year	4,004
		Total 6,248

(Estimated U.S. annual hose pulloffs: 340,000)

Activated Emergency Shutoffs

Type of Outlet	Occurrence Rate	Projected State Total
Self-service only	5.8 times per year	10,730
Split island (s-s)	2 times per year	2,590
		Total 13,320

Reasons of Activation	Occurrences Per Year In 205 Outlets	Projected State Total
Hose pulloff	282	5,076
Vehicle hit pumps	68	1,224
Fire	20	360
Engine running	10	180
Smoking by customer	4	72

Total Accident Occurrence Per Year, Per 100 Outlets

Type of Outlet	Rate	Projected State Total
Full-service	.65 per year	460
Self-service	.85 per year	1,572
Split island	1 per year	1,295
		Total 3,327

Number of Fires Per Year, Per 200 Outlets

Type of Outlet	Number of Fires	Fire Department Notification Rate
Full-service	2	4%
Self-service	8	4%
Split island	9	15%
	Total 19	
Total reported to fire dept.	1.75	

Lives Saved Per 100 Outlets Over Last 5 Years

Attempts	Successes	Losses
13	12	1